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UNCLAS PARAMARIBO 000748

SIPDIS

SENSITIVE

STATE FOR WHA/CAR

E.O. 12958: N/A
TAGS: ECON EPET ETRD ENRG PREL NS PROG
SUBJECT: SURINAME FACES POSSIBLE GAS STATION STRIKE IN MIDST OF GROWING CONSUMER DISCONTENT

REF: A PARAMARIBO 689

B PARAMARIBO 607
C 04 PARAMARIBO 044

¶1. (U) Summary: On Monday November 14 gas station operators throughout Suriname shut down all pumps in order to focus public attention on their demands for an increased share of the profit margin on the fixed price of gasoline. This strike comes at an inopportune time for the government as it faces a series of protests organized by the political opposition leader, Desi Bouterse (see reftel A) who is using the negative reaction to recent price increases (see reftel B) as a wedge issue to discredit and undermine the Venetiaan government. Realizing the political peril, Minister of Trade and Industry Siegfried Gilds called for an immediate end to the strike and demanded negotiations begin promptly between the oil companies and the station operators. After five days of talks the two sides do not seem to be in agreement, with the owners again threatening to close the pumps on Sunday evening. Unless the two sides find common ground quickly, the government will find itself again exposed not only to criticism by the political opposition but also from a public frustrated by a lack of gasoline. End summary.

¶2. (U) Since the doubling in the price of gas in September, the Association for Gas Station Holders (SSEB) has been complaining that they need an increase in their profit margins in order to remain economically viable. Currently the gas station holders earn 8 cents per liter or 2.7 percent of the current pump price. Out of these earnings they pay rent to the oil companies who own the stations and bear the operational costs for running them. According to Sirodjenie Janki, secretary of the SSEB, the oil companies have raised the rent on most of the stations by 40 percent this past year. SSEB maintains that when the GOS increased the fuel price by 100 percent, the earnings of both the government and the oil companies were enhanced; yet the margin for the holders remained the same. SSEB is now demanding that the margin for the holders be increased to 15 cents per liter or 5 percent of the current pump price. SSEB claims that the increase in fuel prices has led to a decrease in demand for gas by an average of 30 percent; the oil companies state that this figure is closer to 20 percent. The overall decrease in demand has concomitantly reduced the station operators' income.

¶3. (SBU) The last major strike by gas station owners in December 2003 (see reftel C) occurred under a similar set of circumstances, where the oil companies needed to negotiate directly with station owners to arrive at an acceptable profit margin. The government at that time absorbed the cost of the increase of the owners' profit margin, averting an impasse but at the cost of reduced tax revenue. This solution if proffered today would have negative political consequences, in that it would undermine the government's argument for so dramatic an increase in the price of gas. According to some rumors, the government is eyeing a similar solution this time around if it can make it appear that the oil companies are actually absorbing the loss.

¶4. (SBU) Embassy has learned that in the period prior to the general election when the price of gas was kept well below market price, government subsidies resulted in indebtedness to the oil companies of 28 million SRD (USD $9.65 million). At the current fixed price of 3 SRD per liter the government expects to be able to pay off the arrears by January. Although there has been some reduction in the consumption of gas, the price increase has also had an inflationary effect, with calls for salary increases; prices increase in consumer items; and higher fares for public transport. As the international price of gas drops, the government will come under increased pressure to readjust the price downward.

¶5. (U) Comment: Driven more by its fear of the oligarchical power of the oil suppliers than by sound economic arguments to remove price controls on gas, the government is unlikely

in the short term to allow market forces to set the price of gasoline. If the government were to do so it might avoid the constant political scrutiny it attracts each time adjustments in the price of fuel are required. End comment.

BARNES

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